

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of

Implementation of the Local Competition
Provisions in the Telecommunications Act
of 1996

CC Docket No. 96-98

Inter-Carrier Compensation for ISP-Bound
Traffic

CC Docket No. 99-68

**OPPOSITION OF VERIZON¹ TO WIRELESS
WORLD'S PETITION FOR RECONSIDERATION**

The Commission should reject Wireless World's argument to allow reciprocal compensation for Internet-bound traffic for those carriers that were not exchanging traffic prior to adoption of the *Remand Order*.² By limiting compensation to those carriers that actually were exchanging traffic prior to the *Remand Order*, the Commission has properly limited such compensation, while still protecting any theoretical interests of carriers that were actually receiving such compensation.

In the *Remand Order*, the Commission found that the extraction of reciprocal compensation for Internet-bound calls was "regulatory arbitrage" that "distorted the economic incentives related to competitive entry into the local exchange and exchange access markets."³ For that reason, the Commission concluded that it had to "take interim steps to limit the

¹ The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc., listed in Attachment A.

² Wireless World at 3-5.

³ *Remand Order* ¶ 2.

regulatory arbitrage opportunity presented by ISP-bound traffic,”⁴ and it “impose[d] an interim intercarrier compensation regime for ISP-bound traffic that serves to limit, if not end, the opportunity for regulatory arbitrage.”⁵ For that reason, it promptly cut off new opportunities for carriers to engage in these activities — “our goal here is to address and curtail a pressing problem that has created opportunities for regulatory arbitrage and distorted the operation of competitive markets” and “seek to confine these market problems to the maximum extent.”⁶ Wireless World happened to be on the wrong side — from its financial perspective — of this cut-off line. That should not cause the Commission to change its sound decision.

Moreover, it is clear that the Commission drew this line in a reasonable place. A carrier that was actually exchanging traffic under an approved interconnection agreement arguably had some right to rely on the assumption that the arrangement would continue for the life of that agreement. A carrier that was not doing so would not have any right to rely on the continuation of a regime that permitted it to receive the benefits of regulatory arbitrage. Furthermore, new entrants are in the same position as other CLECs in competing for new customers, and they are in a better position than the incumbent LECs, which have *never* been able to use reciprocal-compensation windfalls to offer ISPs below-cost service, that have had to recover their costs from their own ISP customers, and (to make matters worse) that have been forced to pay billions to subsidize their rivals. And, finally, given the procedural history and the Commission’s 1999 decision about the nature of Internet-bound calls, the Commission is clearly correct that it “might be unwise”⁷ for carriers to count on the continuation of this arbitrage opportunity.⁸

⁴ *Remand Order* ¶ 2.

⁵ *Remand Order* ¶ 77.

⁶ *Remand Order* ¶ 81.

⁷ *Remand Order* ¶ 84.

Verizon, therefore, urges the Commission to deny Wireless World's petition.

Respectfully submitted,

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⁸ The Florida PSC poses related questions concerning how to determine the cut-off point for what is a new market under the *Remand Order*. In fact, that order is clear. A carrier is not entitled to compensation unless it was actually exchanging traffic entitled to compensation before the date, even if it had already entered into an interconnection agreement. *Remand Order* ¶ 81. Moreover, even if the carrier were somehow entitled to compensation, that compensation, based on the zero traffic volume in the first quarter of 2001, would be zero.

THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc. These are:

Contel of the South, Inc. d/b/a Verizon Mid-States
GTE Midwest Incorporated d/b/a Verizon Midwest
GTE Southwest Incorporated d/b/a Verizon Southwest
The Micronesian Telecommunications Corporation
Verizon California Inc.
Verizon Delaware Inc.
Verizon Florida Inc.
Verizon Hawaii Inc.
Verizon Maryland Inc.
Verizon New England Inc.
Verizon New Jersey Inc.
Verizon New York Inc.
Verizon North Inc.
Verizon Northwest Inc.
Verizon Pennsylvania Inc.
Verizon South Inc.
Verizon Virginia Inc.
Verizon Washington, DC Inc.
Verizon West Coast Inc.
Verizon West Virginia Inc.